

US technology deal insights Q3 2014 update

October 2014

*A publication from
PwC's Deals practice*

At a glance

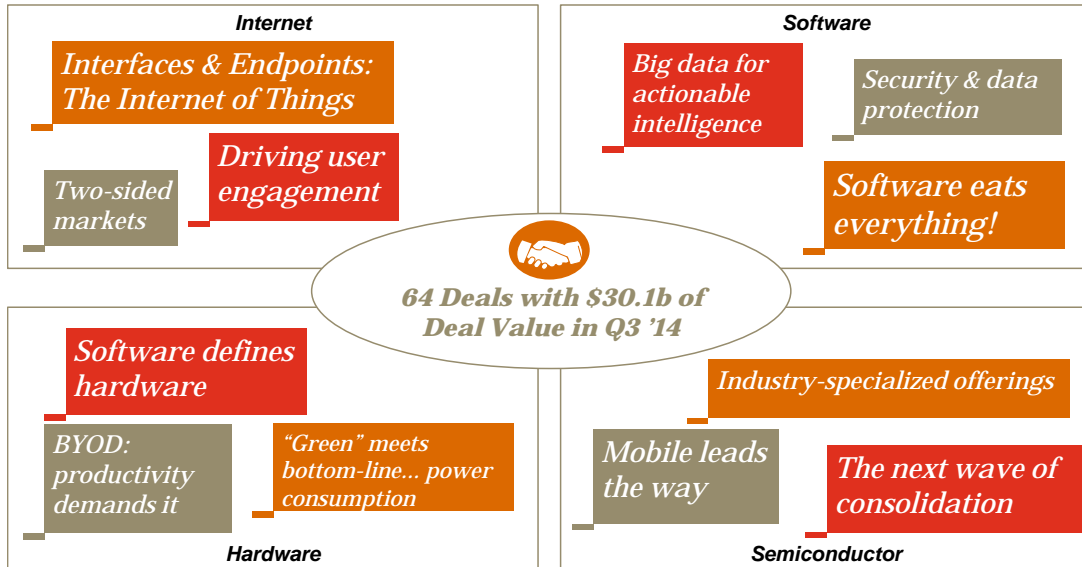
Third-quarter deal values remain at historical norms with a marginal decrease in volumes and new announcements

Internet and IT services sectors drive increase in deal value

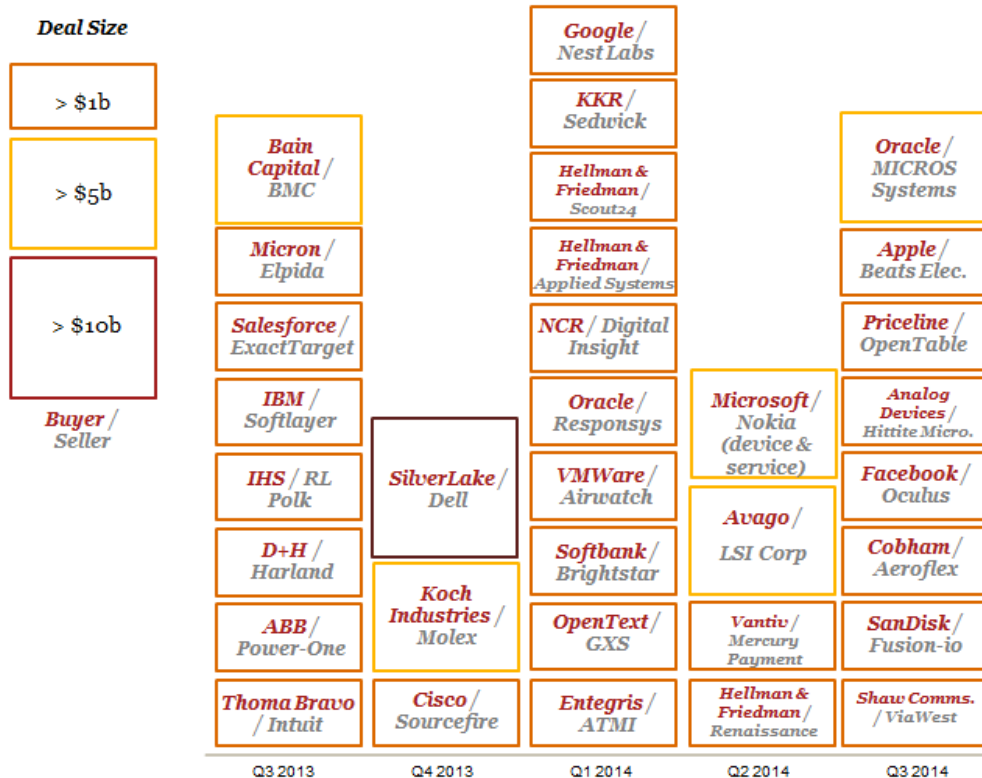
A wave of spin off announcements poses fundamental change to technology landscape

Momentum continues apace with slightly fewer, but larger, deals

Third Quarter 2014 Highlights



Deals over \$1 billion, last five quarters



Spin-off announcements signal shifts in competitive landscape

Welcome to the third-quarter 2014 issue of *PwC's US technology deal insights*. In many ways, the third quarter brought more of the same, as deal values and volumes held steady with previous quarters. Equity markets maintained near-record highs, IPO markets remained active (if not a bit slower), while private equity exits continued to gain steam. In many ways, it was all rather routine; that is until the last 3 weeks of the quarter.

They say that breaking up is hard to do, but as technology bellwethers mature, many are deciding to do just that. The last 20 days of the quarter saw an unprecedented series of announcements from technology titans that signal fundamental shifts in the competitive landscape. In those 3 short weeks, we saw headlines from eBay, HP, JDSU and Symantec, all announcing plans to split their enterprises, for the most part, right down the middle. Combined with broader megatrends in the industry, it's clear that technology power houses are evaluating their strategic options and determining how to best compete in a future that necessitates agility alongside innovation. At the size and complexity of many of the more seasoned technology players, that is difficult indeed.

Speaking of difficult, the global economy continued to show signs of stress. The US remains a bright spot amongst global forecasts; but export concerns are rising based on the strengthening US dollar. Economists' GDP estimates for the full year were revised slightly downward after volatility in the first-half of 2014. Despite these dips, IT spending projections have been revised slightly upward to 2.6% in 2014 due to higher expectations for devices and data center systems. Unemployment in the US continued to decline, dipping below 6% in September for the first time since 2008. In response to the weakening global economic outlook, and with quantitative easing set to end this month, the US Federal Reserve indicated it will wait longer than previously anticipated to increase interest rates.

Abroad, China's GDP growth contracted to 7.3% and increased stimulus measures are anticipated to become necessary. Projections for 2015 are expected to be cut further to around 7%. Across the pond, Europe continues to face challenges. While Germany has remained a source of strength in the region, the IMF has cut Eurozone projections to 1.3% in 2015, citing a heightened risk of stalling and a need for increased infrastructure investment. In the emerging markets, growth forecasts were similarly cut with

Brazil suffering the largest decline in its outlook, now expecting to grow at just 0.3% in 2014 and 1.4% in 2015.

US equities continued to shrug off these global concerns, reaching new highs during the third quarter with the Dow Jones, NASDAQ, and S&P 500 rising 1.3%, 1.9%, and 0.6%, respectively. The top 25 global technology businesses maintained average enterprise-value-to-EBITDA multiples of 9.8x. All the while, their war chests of cash continue to increase, now in excess of \$360 billion, providing ample ammunition for strategic acquisitions. Technology initial public offerings (IPOs) set a new record of \$23.5 billion in proceeds during the third quarter with the inclusion of the largest IPO on record – Alibaba – while the volume of new pricings declined to 9 from 22 in the second quarter. Technology IPO average one-day returns exceeded 18% and current year-to-date returns averaged 42%, both well-surpassing the overall growth of 2014 market indices. New registrations followed suit, with publicly announced IPO registrations totalling 11 for the quarter.

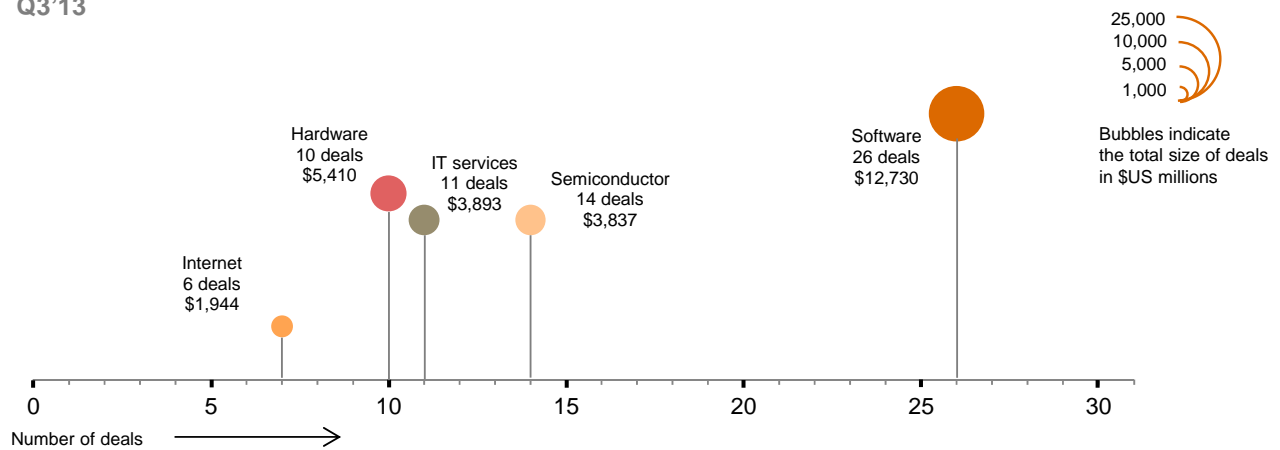
With executive teams spending more time in the board room evaluating potential spin offs vs. acquisition growth strategies, deal activity understandably remained relatively flat, with volume declining marginally during the quarter. Cross-border deals staged a come-back, with US acquirers leading by way of investment into Europe. To no one's surprise, the software sector continues to lead the way in terms of deal volume, while hardware transactions continued to increase and the internet sector posted a moderate decline. Smaller tech and talent deals persist as technology players demand access to innovative technology and focus on rapid integration into their portfolios. Underlying all these movements, the cloud continues to grow, with more than half of all companies leveraging it to decrease costs and increase agility.

Divestitures among technology companies exhibited a slight decline in the third quarter. Of course many, if not all, of the currently planned spinoffs could end up as acquisition candidates instead. Several of the newly liberated businesses present alluring alternatives for former competitors. In which case, instead of breaking up, shareholders may wish to see them making up again. Regardless of the outcomes, the remainder of 2014 and start of 2015 are poised to prove interesting as the disruptive power of technology takes aim at some of the industry's most recognizable names.

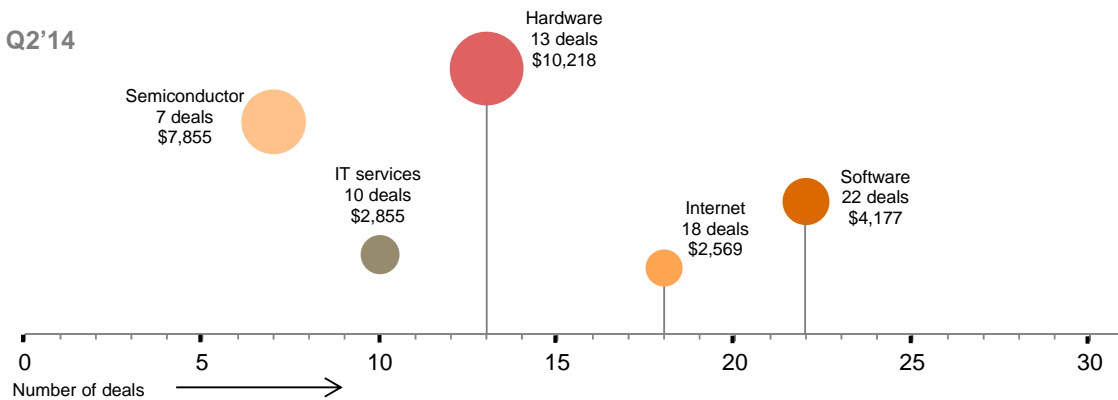
All sectors contributed, with values more evenly spread than at any time in the past few years

Number of closed technology deals and deal value by sector, \$US millions

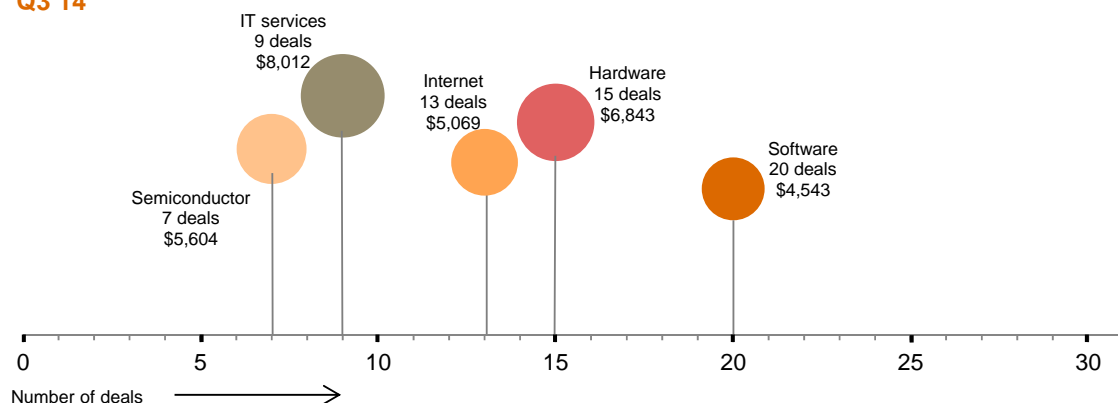
Q3'13



Q2'14



Q3'14



Source: Thomson Reuters

Software volume continues to thrive, while Internet and IT Services drive deal value

Key announced transactions

While continual quarterly increases in the number of announced deals has held as a trend over the past year, the third quarter demonstrated a marginal decline in technology deal announcements. Counter to the slight decline in volume, the number of new billion-dollar deals announced notably increased during the third quarter. Healthy valuations, built-up cash reserves, and the ability to leverage equity enabled strategic buyers to lead the way, while private equity continued to play an active role on both the buy and sell side.

During the third quarter, 14 deals in excess of the billion-dollar mark were announced, but had not yet closed, including:

- SAP's \$7.4 billion acquisition of Concur Technologies, an enterprise software company.
- Vista Equity Partners' \$4.3 billion acquisition of TIBCO Software, an infrastructure and business intelligence software provider.
- Zillow's \$3.5 billion acquisition of Trulia, a competitor in the online real estate listings market.
- The \$3.5 billion acquisition of Comdata, an electronic payment solutions provider, by FleetCor, a provider of specialized payment products and services.
- Infineon Technologies' \$2.9 billion acquisition of International Rectifier, a specialty semiconductor producer.
- The \$2.7 billion acquisition of Trizetto, a health care software and solutions provider, by IT services firm, Cognizant Technology Solutions.

Private equity transactions include announcements from KKR, Symphony, Siris Capital, Thoma Bravo, Veritas Capital, Vista Equity Partners, and several other firms. On the corporate front, in addition to the large deals noted above, announcements of acquisitions by Cerner, Intel, Microsoft, Priceline, Salesforce, Softbank, and others highlight the broad activity across the technology industry.

While the momentum of deal announcements may have plateaued in the third quarter, and several large deals may close next year, both volume and values are hinting toward a strong finish to 2014.

Key closed transactions

Closed deal activity in the third quarter continues the steady, lively pace that we've seen over the course of the past year. With 64 transactions completed during the quarter for a total of \$30.1 billion, average deal value totalled \$470 million, a 19% increase from \$396 million in the second quarter, and down from the \$499 million average over the last 12 months. In comparison to the third quarter a year earlier, when we initially saw deal activity resurge after dismal start to 2013, transaction volume remained relatively flat while value grew 8%. There were 8 deals in excess of \$1 billion during the third quarter, a slight increase compared to an average of 6 per quarter over the last 12 months. Deals in the third quarter included:

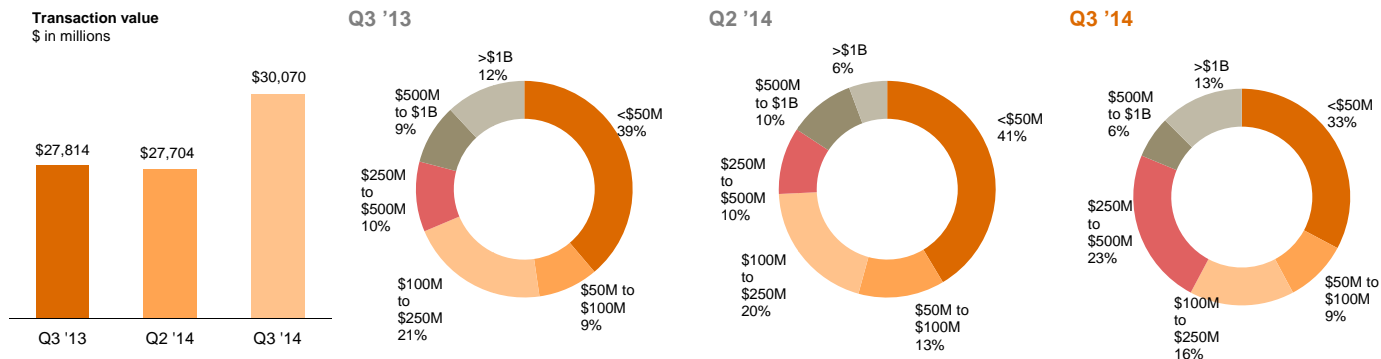
- Oracle's \$5.3 billion acquisition of MICROS Systems, a software solutions provider to the retail and hospitality industries.
- Apple's \$3.0 billion acquisition of Beats Electronics, an audio equipment maker and music subscription service provider.
- Priceline's \$2.6 billion acquisition of Open Table, an online restaurant reservation company.
- Analog Devices' \$2.4 billion acquisition of Hittite Microwave, a designer and manufacturer of electronic components.
- Facebook's \$2.3 billion acquisition Oculus VR, a virtual reality technology developer.
- The \$1.5 billion acquisition of Aeroflex, a wireless communications solutions provider, by Cobham, the UK aerospace and defense firm.
- The \$1.3 billion acquisition of Fusion-io, a developer of flash-based PCIe hardware and software solutions, by SanDisk.
- The \$1.2 billion acquisition of ViaWest, a provider of colocation, cloud and managed services, by Shaw Communications, a Canadian communications company.

New deal announcements and recent closures signal a strong finish to 2014

Average deal sizes show resurgence, while quarterly volume maintains trajectory

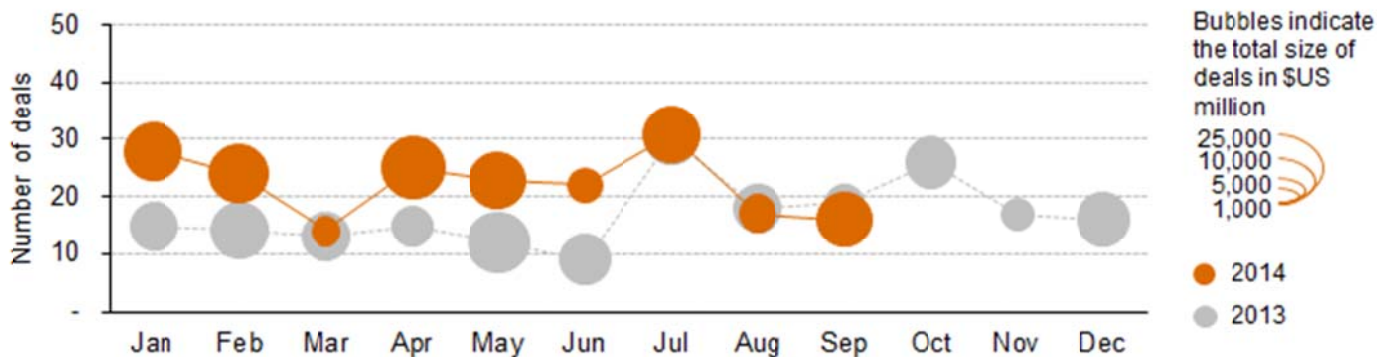
Closed US deals by value

Comparison of total deal value



\$ in millions, except #	Q3 '13		Q2 '14		Q3 '14	
	Number of deals	Total deal value	Number of deals	Total deal value	Number of deals	Total deal value
<\$50M	26	660	29	833	21	579
\$50M to \$100M	6	385	9	669	6	418
\$100M to \$250M	14	1,972	14	2,366	10	1,643
\$250M to \$500M	7	2,683	7	2,461	15	5,153
\$500M to \$1B	6	3,845	7	4,825	4	2,7613
>\$1B	8	18,269	4	16,550	8	19,666
Total	67	27,814	70	27,704	64	30,070

US technology deals by month, 2013 and 2014



Source: Thomson Reuters

Year-to-date activity sets 2014 on pace to be one of the strongest deal markets in years

Sector focus

While third-quarter deal activity remained on a similar level as the past year, 2014 is outpacing the past 2 years in terms of both volume and value. The software sector remains the most active, at 20 transactions closed with an aggregate deal value of \$4.5 billion. Volume declined marginally while value grew 9% over the second quarter. This growth in deal value resulted in an average transaction size of \$227 million, as compared to \$190 million in the second quarter. Typically a sector characterized by smaller average deal values than the rest of the industry, the third quarter a year prior was filled with billion-dollar deals. As a result, third quarter activity represents a 23% decrease in volume and 64% decrease in value over the same quarter a year ago.

The number of Internet deals declined 28%, while value nearly doubled compared to the second quarter. The first billion-dollar Internet deal to close since the first quarter, Priceline’s \$2.6 billion acquisition of OpenTable drove the growth in value. As compared with the same quarter a year ago, both volume and value increased 117% and 161%, respectively.

Hardware sector deal volume increased 15%, while values declined 33% in the third quarter. Average deal values declined to \$456 million from \$786 million in the second quarter. While the third quarter closed 2 billion-dollar

transactions, including Apple’s \$3.0 billion acquisition of Beats Electronics, the \$7.2 billion acquisition of Nokia’s devices and services business by Microsoft in the second quarter overshadowed the sector’s other deal activity.

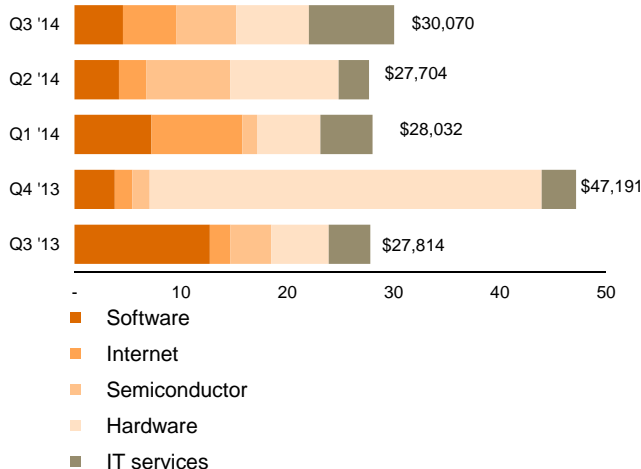
In the semiconductor sector, consolidation continued. Volume remained flat while values declined 29% largely due to the fact the multiple billion-dollar deals in aggregate during the third quarter were smaller than Avago’s \$6.6 billion acquisition of LSI in the second quarter alone.

Lastly, IT services volume declined marginally, yet values nearly tripled. As the largest deal closed in the third quarter, Oracle’s \$5.3 billion acquisition of MICROS Systems set a record for the sector not seen in recent years.

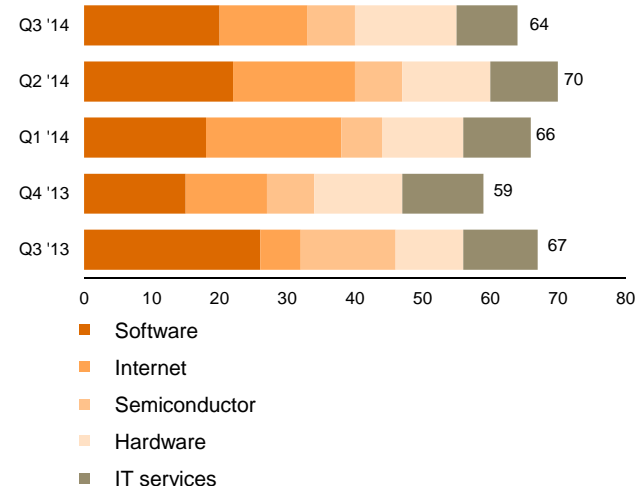
Conclusion

The third quarter of 2014 continued the same cadence we’ve seen over the past 4 quarters, setting 2014 at a pace to become the second most active year in technology deals since the Great Recession. As we close out the year, look for software deals to continue to play an active role, with enterprise software leading the way. We expect further semiconductor consolidation, or at least specialized tuck-ins. Combined with increased IT spending forecasts and the number of recent spin off announcements, the technology industry is positioned for a memorable fourth quarter.

Closed deal value by sector, \$US millions



Closed deal volume by sector



Source: Thomson Reuters

Focus article

PwC's 2014 Integration Survey: Winning the Integration Marathon

Capturing significant value from M&A transactions remains a top priority for technology companies. As pressure from stakeholders to achieve deal objectives and deliver quantifiable deal value increases, and the focus of many companies' M&A strategies shifts to larger and more transformational acquisitions, companies are entering relatively uncharted territory. It's a marathon of strategic, financial and operational challenges that requires a rapid start at the sound of the gun, but also a consistent focus on the finish line. Only those who understand the proper integration momentum, including early planning, rapid execution and long-term commitment, can realize the full value of their M&A activities.

Understanding the potential pitfalls

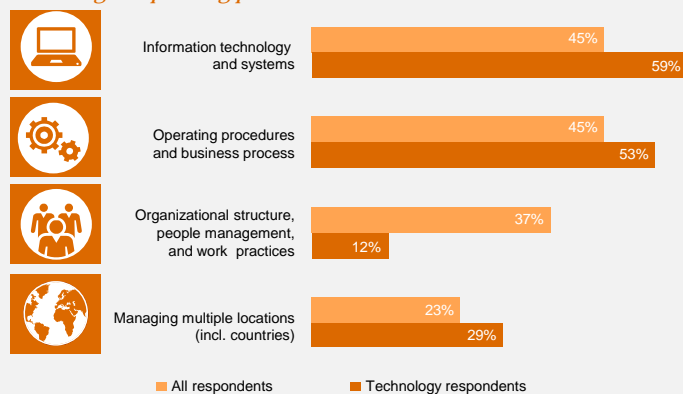
According to PwC's 2014 M&A Integration Survey, dealmakers agree that outcomes don't always measure up to M&A deal objectives. More than one-third of technology companies reported significant success in meeting operational targets, which was exactly the same as respondents overall. Only 35% reported significant success in achieving financial goals. While 65% of all respondents characterized recent deals as a success from a strategic standpoint, most technology organizations still struggled to meet the strategic objectives of transformational deals as a result of increased complexity, including gaining access to new brands, technologies, products and markets.

Respondents were also clear on the integration risks and challenges they face. Integrating technology systems and aligning operating procedures and business processes were identified as the biggest post-close challenges. These challenges are in line with the rising number of transformational deals. Transformational acquisitions require strong collaboration and alignment between the companies, compared to traditional absorption deals which follow a more direct approach of migrating to the acquirer's procedures and processes.

Regardless of the acquisition type, survey respondents ranked research and development as the most difficult function to integrate. Cultural disconnects between companies can prevent essential collaboration and often lead to talent leakage. The upsurge in transformational deals also plays a part, by driving a stronger emphasis on the importance of new product outcomes, one of the lengthiest of integration milestones. Overall, respondents reported challenges in capturing revenue-based synergies while indicating favorable results in capturing cost synergies.

Figure 1: Most common post-close integration challenges

Percentage responding post-close difficulties were encountered:



Running the perfect race — you will never win a race if you do not get out of the gates clean

No one expects integration efforts to achieve immediate success, but the likelihood of reaching predetermined milestones and overall objectives is enhanced by focusing on three primary components of the integration process. Early planning, rapid execution and long term commitment improve deal success.

Quick and systematic integrations that make optimal use of the time between deal announcement and deal close, as well as the initial period post-close, set the course for long term commitments by delivering continuous deal value. The integration process provides a natural arena for redefining business processes and redesigning organizational structures and systems, clearing the course for ongoing cost efficiencies.

Before areas of improvement can be identified and roadmaps put in place, leadership must be aligned within the organization. Higher levels of deal success were reported by those companies who achieved leadership alignment within the first three months, underscoring the need for speed as well as a systematic approach to the integration.

Leadership selection and organizational assignments also allow for early and comprehensive communication of integration objectives. Meeting communication targets within the first three months or less is directly attributable to increased customer focus, employee commitment and productivity, the speed at which decisions are made and overall confidence in the direction of the integrating business.

Of equal importance is the need to integrate operating policies in less than six months after deal close. According to survey respondents, the highest performing deals achieved this milestone in three months or less, and the reasons are clear. Quickly integrating operating policies solidifies awareness of the company's direction, providing employees a well-defined understanding on where to focus energies to achieve the objectives that matter most.

Closing the final mile

Establishing the key foundational elements within the first three months sets the starting blocks for the race to the finish line, but sustained commitment to the integration plan over the long term is essential to realizing deal objectives. Survey respondents for 68 percent of the highest performing deals indicated complete commitment to long term plans and objectives. This is evidenced through the development of robust execution plans during early integration, as well as the commitment of resources and capital to deliver and track synergy progress against goals over time. According to survey data, companies with the highest performing deals not only incorporated robust tracking into their integration plans, but applied more deal performance indicators, particularly in the areas of cost.

The 2014 M&A Integration Survey is clear on one point: Early planning and fast action that includes strategic thinking about the long term are critical components of successful integrations. While dealmakers instinctively know how to deliver deal value and recognize the importance of early integration execution, only 50 percent of respondents reported being completely committed over the long term. Among all respondents, less than 50 percent completely achieved five of the six most important deal objectives as ranked by survey respondents, such as access to new brands, technologies, products and markets, growth in market share and capturing operational synergies. Among technology companies, 47 percent and 31 percent of respondents reported completely achieving the strategic goals identified as most important, growth in market share and capturing operational synergies, respectively.

Turning the tide is all about good strategy and focus—planning integration early and staying involved long enough to deliver deal value. Quickly selecting the strategic, financial and operational objectives that matter most and performing the integration activities that have the greatest potential impact set the stage for long term investment and provide the means to realizing the full benefits of M&A deals.

For more information about the results of the 2014 M&A Integration Survey, please visit <http://www.pwc.com/2014maintegrationsurvey>

Figure 2: Connection between deal success and early leadership alignment, stakeholder communications, and operating policy integration

Time to achieve leadership alignment:

	Among highest performing deals*	Among all respondents	Among Technology respondents
Immediately to 3 months after close	56%	44%	29%
More than 3 months after close	44%	56%	71%

Time to achieve stakeholder communication objectives:

	Among highest performing deals*	Among all respondents	Among Technology respondents
3 months or less	68%	53%	53%
4 to 6 months	24%	18%	18%
More than 6 months	8%	29%	29%

Time to fully integrate operating policies:

	Among highest performing deals*	Among all respondents	Among Technology respondents
3 months or less after close	44%	25%	30%
4 to 6 months after close	32%	29%	29%
More than 6 months after close	24%	46%	41%

* Deals where respondents report the highest level of success in all three areas of performance—strategic, financial, and operational

About PwC's Deals practice

Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise technology companies and technology-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine deep technology industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions tailored to your particular deal situation and designed to help you extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divesture process, we can help.

For more information about M&A and related services in the technology industry, please visit www.pwc.com/us/deals or www.pwc.com/technology.

About the data

We define M&A activity as mergers and acquisitions where targets are US-based companies acquired by either US or foreign acquirers or foreign targets acquired by US technology companies. We define divestitures as the sale of a portion of a company (not a whole entity) by a US-based seller.

We have based our findings on data provided by industry-recognized sources. Specifically, values and volumes used throughout this report are based on completion date data for transactions with a disclosed deal value greater than \$15 million, as provided by Thomson Reuters as of September 30, 2014, and supplemented by additional independent research. Information related to previous periods is updated periodically based on new data collected by Thomson Reuters for deals closed during previous periods but not reflected in previous data sets.

Because many technology companies overlap multiple sectors, we believe that the trends within the sectors discussed herein are applicable to other sectors as well. Technology sectors used in this report were developed using NAIC codes, with the semiconductor sector being extracted from semiconductor and other electronic component manufacturing codes by reference to SIC codes. In certain cases, we have reclassified deals regardless of their NAIC or SIC codes to better reflect the nature of the related transaction.

Acknowledgments

Author

Tom Erginsoy
Director, Technology Deals
408 817 7950
thomas.c.erginsoy@us.pwc.com

Focus Article

Paul Hollinger
Principal, Deals
408 817 8295
paul.j.hollinger@us.pwc.com

For a deeper discussion on technology deal considerations, please contact one of our practice leaders or your local Deals partner:

Martyn Curragh
Principal, US Deals Leader
646 471 2622
martyn.curragh@us.pwc.com

Silicon Valley

Rob Fisher
Partner, US Technology Industry &
Silicon Valley Deals Leader
408 817 4493
rob.fisher@us.pwc.com

New York Metro

Brian Levy
Partner, Deals
646 471 2643
brian.michael.levy@us.pwc.com

East

Dan Kabat
Partner, Deals
617 530 5431
dan.kabat@us.pwc.com

Central

Doug Meier
Partner, Deals
713 356 5233
douglas.meier@us.pwc.com

John Biegel
Partner, Deals
312 298 3033
john.biegel@us.pwc.com

Southeast

Matt McClish
Partner, Deals
678 419 4163
matt.mcclish@us.pwc.com

www.pwc.com/us/deals

www.pwc.com/technology

About our deals publications:

Published annually, with quarterly updates, by PwC's technology specialists in our Deals practice, PwC's US technology deal insights covers deal activity and trends in the US technology industry.

About PwC US

PwC US helps organizations and individuals create the value they're looking for. We're a member of the PwC network of firms in 157 countries with more than 184,000 people. We're committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com/US. Gain customized access to our insights by downloading our thought leadership app: [PwC's 365™ Advancing business thinking every day](#)

Learn more about PwC by following us online: [@PwC LLP](#), [YouTube](#), [LinkedIn](#), [Facebook](#) and [Google +](#).

© 2014 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved. PwC US refers to the US member firm, and PwC may refer to either the PwC network of firms or the US member firm. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.